

Message Text

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NSCE-00 SSO-00 USIE-00 INRE-00 FEA-02 SAJ-01 IO-14

PA-04 PRS-01 AEC-11 AID-20 CEA-02 CIEP-02 COME-00

FPC-01 H-03 INR-10 INT-08 L-03 NSC-07 OMB-01 PM-07

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IERG WORKING GROUP

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TO AMEMBASSY BRUSSELS IMMEDIATE

INFO AMEMBASSY BONN IMMEDIATE

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AMEMBASSY DUBLIN IMMEDIATE

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AMEMBASSY THE HAGUE IMMEDIATE

AMEMBASSY OSLO IMMEDIATE

AMEMBASSY OTTAWA IMMEDIATE

AMEMBASSY TOKYO IMMEDIATE

USMISSION OECD PARIS IMMEDIATE

C O N F I D E N T I A L STATE 138196

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: INSTRUCTION FOR JUNE 27-28 MEETING OF IEP WORKING

PARTY

REF: BRUSSELS 4431

1. BEING TRANSMITTED SEPTEL ARE REVISIONS OF KEY SECTIONS

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OF THE US IEP PAPER WHICH WAS CIRCULATED AT THE JUNE 17 ECG
MEETING. THESE SECTIONS HAVE BEEN REVISED TO REFLECT
FURTHER EVOLUTION IN OUR THINKING AND TO RESPOND TO SPECIF-
IC QUESTIONS ASKED REFTEL. YOU SHOULD TABLE REVISED VER-

SION AT JUNE 27 WORKING PARTY MEETING.

2. FOLLOWING IS REASONING BEHIND POSITIONS TAKEN ON KEY ISSUES COVERED IN SEVERAL OF THESE REVISED PARAS. YOU WILL NOTICE THAT ALL QUANTITATIVE DATA HAS BEEN LEFT OUT OF U.S. REVISION. WE BELIEVE DISCUSSION OF SPECIFIC NUMBERS INADVISABLE UNTIL GREATER AGREEMENT REACHED ON OUTLINES OF OVERALL PROGRAM. YOU MAY USE FOLLOWING INFO AS YOU SEE FIT IN EXPLAINING US REVISIONS:

3. DEMAND RESTRAINT: (ROMAN PARA 2 IN CURRENT IEP PAPER)

A. (QUESTION): THE U.S. PAPER CALLS FOR A COMMON PERCENTAGE RESTRAINT IN CONSUMPTION BASED ON OIL, RATHER THAN VARIABLE RESTRAINT LEVELS FOR INDIVIDUAL COUNTRIES BASED ON ENERGY, OR A MIX OF ENERGY AND OIL. WHY? IS THIS REALLY EQUITABLE?

(ANSWER):

-- THIS IS A SIMPLER APPROACH, IMMEDIATELY AND CLEARLY DEMONSTRATING TO PUBLIC OPINION THE EQUALITY OF EFFORT BY EACH COUNTRY, AND THE OVERALL PURPOSE OF THE PROPOSED SCHEME.

-- WE ARE DEALING WITH SHORT-TERM EMERGENCY SITUATIONS. THE WHOLE SPECTRUM OF ENERGY AS A BASE FOR RESTRAINT CALCULATIONS, THEREFORE, IS NOT REALLY RELEVANT, SINCE THERE IS LITTLE SUBSTITUTABILITY FOR OIL OVER THE SHORT TERM. THERE IS NO REASON TO SAVE ENERGY JUST TO SAVE ENERGY. ONLY SAVINGS WHICH CAN RESULT IN OIL SAVINGS ARE RELEVANT.

-- A BASE WHICH EMPHASIZED SUBSTITUTABLE FORMS OF ENERGY WOULD PROVIDE THE WRONG INCENTIVES, SINCE WHAT WE ARE AIMING AT IS RESTRAINT IN OIL CONSUMPTION. (WE PREVIOUSLY CONSIDERED SUBSTITUTABLE ENERGY AS A BASE BUT HAVE DECIDED AGAINST CONFIDENTIAL

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IT.)

-- TO THE EXTENT THAT USE OF SUBSTITUTABLE FORMS OF ENERGY IS FEASIBLE IN THE SHORT RUN IT IS TAKEN INTO ACCOUNT UNDER THE CONCEPT OF ALTERNAT STANDBY EMERGENCY SUPPLY PROGRAMS. IT SHOULD NOT ALSO BE AN ASPECT OF THE CONSUMPTION RESTRAINT PROGRAM.

-- FINALLY, THE QUESTION OF THE EQUITY OF THE IEP SCHEME HAS TO BE DETERMINED IN TERMS OF THE PACKAGE AS A WHOLE - NOT ON THE BASIS OF ISOLATE ELEMENTS.

B. (QUESTION): AS FAR AS THE BASE PERIOD IS CONCERNED, THE U.S. PAPER USES THE 12 MONTHS IMMEDIATELY PRECEDING THE EMERGENCY, FOR WHICH INFORMATION IS AVAILABLE, WITH ALLOWANCE MADE FOR SEASONAL VARIATIONS. WHY?

(ANSWER):

-- IT IS DIRECTLY MEASURABLE, AS OPPOSED TO A PROJECTED BASE PERIOD, FOR EXAMPLE.

-- WE WANT TO ENCOURAGE REDUCTION IN OIL CONSUMPTION, AND IN A GROWTH SITUATION A HISTORIC BASE SETS A LOWER FIGURE TO WORK AGAINST THAN WOULD A PROJECTED MOVING BASE.

-- BECAUSE IT IS AN EASILY AGREED FIGURE, IT ENHANCES THE AUTOMATICITY OF THE SCHEME AND REDUCES THE JUDGMENTAL ELEMENT.

C. (QUESTION): WHY NOT A RANGE OF POSSIBLE LEVELS TO CORRESPOND TO THE SEVERITY OF SUPPLY CUTBACK, AND ALLOWANCE FOR STAGGERING OF LEVELS IF THE EMERGENCY SUDDENLY GETS MORE EXTREME?

(ANSWER):

-- THE US SCHEME (WHILE NOT MENTIONING ANY SPECIFIC NUMBERS) IS BASED ON THE CONCEPT OF A CONFIDENTIAL

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SINGLE LEVEL OF MANDATORY DEMAND RESTRAINT TO BE IMPLEMENTED AUTOMATICALLY ONCE A SPECIFIED LEVEL OF SHORTFALL IS REACHED. WE BELIEVE IT IS SIMPLER AND MORE REALISTIC TO WRITE THE BASIC INITIAL AGREEMENT IN TERMS OF A COMMITMENT BY EACH COUNTRY TO PRE-POSITION A MANDATORY RESTRAINT PACKAGE YIELDING SAVINGS EQUAL TO THE AGREED COMMON PERCENTAGE RESTRAINT FIGURE.

-- IN ESSENCE, MANDATORY DEMAND RESTRAINT MEASURES ARE LUMPY. WE CANNOT USE THEM TO HANDLE DE MINIMUS SITUATIONS NOR CAN THEY BE FINE TUNED. THE IMPORTANT THING FOR DETERRENCE AND SECURITY IS TO HAVE A FULLY AGREED PREPOSITIONED MINIMUM PACKAGE WHICH WE ALL CAN MONITOR AND ON WHICH WE CAN RELY.

-- THE WORKING GROUP, AND SUBSEQUENTLY THE ECG, SHOULD CONSIDER WHETHER IT IS FEASIBLE TO INTRODUCE INTO THE INITIAL BASIC AGREEMENT A SECOND PREPOSITIONED PACKAGE FOR A HIGHER

LEVEL OF DEMAND RESTRAINT TO MEET THE REQUIREMENTS OF AN EMERGENCY WHICH IS MORE SEVERE, EITHER IN TERMS OF SHORTFALL OR DURATION.

-- THE SENIOR CRISIS MANAGEMENT COMMITTEE SHOULD STUDY THE FEASIBILITY OF INTRODUCING A HIGHER DEMAND RESTRAINT LEVEL AT A LATER TIME.

-- IN ANY GIVEN SITUATION, THE RESTRAINT PROGRAM WOULD BE REVIEWED BY THE CRISIS MANAGEMENT COMMITTEE TO SEE WHETHER IT IS TOO SEVERE AND WHETHER GREATER STOCK DRAWDOWNS OR OTHER MEASURES SHOULD BE ENCOURAGED IN LIEU OF DEMAND RESTRAINTS. STOCK DRAWDOWNS SHOULD BE USED TO THE EXTENT PRACTICABLE TO CUSHION

EFFECTS OF EMERGENCY AS LONG AS THE GROUP'S SECURITY IS NOT IMPAIRED. UNLESS THE CRISIS MANAGEMENT COMMITTEE DECIDES OTHERWISE, WE DO
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NOT VISUALIZE THAT THE PACKAGE OF RESTRAINT MEASURES BE USED TO BUILD UP STOCKS DURING AN EMERGENCY.

D. (QUESTION): WOULD THE COMMITMENTS BE SELF-ENFORCING OR SUBJECT TO REVIEW BY A MONITORING MECHANISM?

(ANSWER):

-- OUR PROPOSAL PROVIDES FOR A STANDBY TECHNICAL COMMITTEE TO REVIEW, ON A CONTINUING BASIS, THE STOCKPILING AND DEMAND RESTRAINT PROGRAMS OF EACH COUNTRY. WE BELIEVE THAT THE IMPARTIALITY OF SUCH A BODY IS ESSENTIAL TO THE SUCCESS OF THE SYSTEM. IT IS THE ONLY WAY OF AVOIDING BIASED ASSESSMENTS OF THE EFFICACY OF A GIVEN COUNTRY PROGRAM.

-- AS FAR AS ALLOCATION IS CONCERNED, THE SYSTEM IS SELF-ENFORCING BECAUSE IT IS BASED ON ASSUMED COMPLIANCE WITH COMMITMENTS, AND PENALIZES UNDERPERFORMERS.

4. STANDBY SUPPLIES PROGRAM: (NOT COVERED IN DETAIL IN CURRENT VERSION OF US PAPER)

A. (QUESTION): WHY ARE STOCKPILES CALCULATED ON THE BASIS OF RESTRAINED RATHER THAN NORMAL RATES OF CONSUMPTION?

(ANSWER):

-- WE RECOGNIZE THAT IN THE PAST CALCULATIONS

HAVE BEEN MADE ON THE BASIS OF NORMAL CONSUMPTION. HOWEVER, OUR OBJECTIVE IS TO LIVE AT AN AGREED RESTRAINED LEVEL OF DEMAND; SINCE WE ARE PROJECTING OVERALL OIL CONSUMPTION AT A RESTRAINED BASIS, WE BELIEVE IT MAKES SENSE TO CALCULATE STOCKPILES ON THIS BASIS.

-- AT THE RESTRAINED RATE, A GIVEN AMOUNT OF STOCKS ON HAND WILL LAST A GREATER NUMBER OF DAYS. ASSUMING THIS SORT OF DETAILED STOCK-
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PILE INFORMATION IS MADE PUBLIC, THIS NUMBER WOULD BE MORE REASSURING TO PUBLIC OPINION.

-- SOME PROPORTIONAL ELEMENT OF OIL IN SHIPS AT SEA AND AT OVERSEAS SUPPLY POINTS IS EXCESS TO REQUIREMENTS, ASSUMING THERE IS A RESTRAINED IMPORT-CONSUMPTION LEVEL, AND COULD BE CREDITED AGAINST STOCKPILE TARGETS. NO CREDIT WOULD BE GIVEN TO THIS FACT IF A NORMAL IMPORT BASE WERE USED.

5. ALLOCATION OF OIL: (ROMAN PARA 3 IN US PAPER)

A. (QUESTION): SHOULDN'T THERE BE DIFFERENT ALLOCATION FORMULAS (I.E., LIKE THE OECD FORMULAS) TO DEAL WITH DIFFERENT TYPES OF EMERGENCY SITUATIONS?

(ANSWER):

-- THE U.S. FORMULA IS THE ONLY ONE WHICH WE ARE AWARE OF WHICH INTEGRATES DEMAND RESTRAINT, STOCKPILES, AND ALLOCATION IN A COMPREHENSIVE WAY. IT ACCOMPLISHES EVERYTHING THAT THE OTHER FORMULAS ACCOMPLISH AND TAKES THEM FURTHER.

-- THIS FORMULA IS ESSENTIAL TO THE OVERALL EQUITY OF BENEFITS AND BURDENS WHICH EACH COUNTRY WOULD RECEIVE UNDER THE US SCHEME.

6. ACTIVATION MECHANISM: (ROMAN PARA 4 IN US PAPER)

A. (QUESTION): THE TRIGGER FOR ALLOCATION UNDER A SELECTIVE SUPPLY CURTAILMENT IS BASED ON IMPORTS. WHY?

(ANSWER):

-- THE SOLIDARITY OF THE GROUP IN COMING TO THE HELP OF AN INDIVIDUAL MEMBER IS A KEY POLITICAL ASPECT OF THE WHOLE PROPOSAL, FOR THE US AS WELL AS OTHERS. EVEN THOUGH THIS MIGHT NEVER BE EXERCISED (ALTERNATIVE SOURCES MAY

READY BE AVAILABLE ON THE WORLD MARKET)
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EACH MEMBER SHOULD HAVE THE RIGHT TO COUNT ON
THE GROUP IN TIME OF NEED. A LOW THRESHOLD
IS NECESSARY TO THIS END.

B. (QUESTION): THE MANDATORY DEMAND RESTRAINT
TRIGGER, HOWEVER, IS BASED ON SUPPLIES INSTEAD OF IMPORTS.
WHY?

(ANSWER):
-- BECAUSE THE DEMAND RESTRAINT PROGRAM ADDRESSES
ITSELF TO THE PROBLEM OF TOTAL CONSUMPTION,
NOT JUST CONSUMPTION OF IMPORTS.

C. (QUESTION): THE ASSESSMENT OF WHETHER THE
QUANTITATIVE CRITERIA FOR TRIGGERING THE SYSTEM ARE MET
WOULD BE LEFT, IN THE FIRST INSTANCE, TO THE SECRETARIAT
TO DECIDE. WHY?

(ANSWER):
-- WE BELIEVE THAT IT ENHANCES THE AUTOMATICITY
OF THE SCHEME IF THE INITIAL DECISION IS
HANDLED AS A TECHNICAL ISSUE DECIDED BY APPLY-
ING BEST AVAILABLE DATA AND TECHNICAL JUDG-
MENT TO ESTABLISHED NUMERICAL CRITERIA, AFTER
WHICH THE CRISIS MANAGEMENT COMMITTEE MAY
EXERCISE POLITICAL REVIEW BY VOTING, IF IT
WISHES, TO REVERSE THE FINDINGS OF FACT OR
APPLICATION OF CRITERIA BY THE SECRETARIAT.
THIS DECREASES THE CHANCE THAT POLITICAL CON-
SIDERATIONS WILL AFFECT THE TRIGGERING OF THE
SYSTEM.

D. (QUESTION): WHAT KIND OF FAIL-SAFE MECHANISM
EXISTS THEN?

(ANSWER):
-- THE SENIOR CRISIS MANAGEMENT COMMITTEE COULD
ALWAYS VOTE TO CANCEL OR DELAY THE TRIGGERING
OF THE SYSTEM IF IT BELIEVED THIS NECESSARY.
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